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# United States Senate

COMMITTEE ON  
GOVERNMENTAL AFFAIRS

WASHINGTON, DC 20510-6250

February 13, 2004

The Honorable Spencer Abraham  
Secretary of Energy  
U.S. Department of Energy  
Washington, DC 20555

Dear Mr. Secretary:

We are writing to urge the Department of Energy (DOE) to suspend deliveries of crude oil to the U.S. Strategic Petroleum Reserve (SPR) until oil prices stabilize at lower levels and inventories of crude oil in the private sector increase. Temporarily suspending deposits of oil into the SPR will help provide American consumers and businesses with urgently needed relief from near-record high crude oil and energy prices.

Crude oil prices are now near \$34 per barrel. The average price of crude oil last year was \$31 per barrel, the highest annual average in twenty years. DOE's Energy Information Administration (EIA) forecasts that oil and gasoline prices will remain high at least through winter and into spring. One reason oil prices are so high is that inventories of crude oil in the private sector are at their lowest levels in twenty-five years, below what the National Petroleum Council considers the "minimum operational inventory." The EIA states "more imports will be needed in 2004 to bring inventories back to levels high enough to relieve some of the price pressures experienced in 2003."

Since late 2001, DOE has been steadily depositing oil into the SPR. The SPR currently holds about 640 million barrels, and DOE anticipates filling the SPR to its capacity sometime in 2005. DOE is scheduled to deposit nearly twenty million barrels into the SPR over the next four months, and recently announced a solicitation for another twenty million barrels in the following months.

Since early 2002, DOE has been filling the SPR without regard to the cost or supply of oil. In early 2003, the Permanent Subcommittee on Investigations of the Senate Governmental Affairs Committee issued a Minority Staff report showing that this policy had increased the cost of oil without increasing overall U.S. energy security. This approach continues to increase taxpayer expense to fill the SPR, causes the government to compete against private companies for oil in a tight market, and increases energy prices, not just for crude oil, but also for home heating oil, jet fuel, diesel fuel, and gasoline. In September 2003, the Senate unanimously passed an amendment to the Interior Appropriations bill directing DOE to issue procedures for acquiring oil for the SPR to maximize the overall domestic supply of oil (including oil in both private sector and governmental inventories), and minimize the cost to the taxpayer of acquiring such oil, consistent with national security.

We urge you to defer shipments to later months so that all available imports could help build private sector inventories. At present, with near-record high market prices and near-record low commercial inventories, it is more important to reduce market prices and supplement private sector inventories than governmental reserves. Economist Philip Verleger and the Air Transport Association estimate that DOE's SPR deposits are adding at least \$6 per barrel – nearly a 20 percent increase – to the cost of oil in the United States. Additionally, analyses by DOE's SPR Office project that deferring deliveries of oil to the SPR when prices are high can save taxpayers “hundreds of millions of dollars,” without any detriment to our energy security.

The DOE has sufficient authority to return to its previous market-based procedures for filling the SPR. Indeed, DOE temporarily deferred deliveries to the SPR in late 2002 when imports from Venezuela were interrupted.

We support the filling of the SPR, but not at any price. DOE, like any prudently managed business, should acquire more oil when prices are low, and less when prices are high. DOE should not be diverting crude oil from depleted private sector inventories when prices are high and supplies are tight. Deferring further shipments to the SPR at this time will reduce energy prices, lower taxpayer costs, and help strengthen our economy. We urge you to defer deliveries of oil to the SPR until prices fall to lower levels and private sector inventories increase, and to consider the cost and supply of oil when scheduling further shipments.

Sincerely,

  
Susan Collins

  
Carl Levin